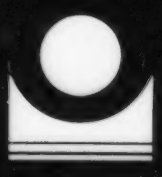
1999/2000

ANNUAL REPORT



Manitoba Gaming
Control Commission

► MISSION STATEMENT

Mission

The Manitoba Gaming Control Commission is an independent commission created to regulate and control gaming activity in the Province of Manitoba with the aims of ensuring that the gaming activity is conducted honestly, with integrity and in the public interest.

The Commission recognizes the diversity of views with respect to gaming and will take a reasoned and balanced approach toward gaming activities in our province.

The Commission will strive at all times to treat its employees, its clients and the general public with respect, fairness and service beyond question.

For more information please contact:

Manitoba Gaming Control Commission
800 – 215 Garry Street
Winnipeg, Manitoba R3C 3P3
Telephone: (204) 954-9400
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E-mail: info@mgcc.mb.ca
Website: www.mgcc.mb.ca

September 15, 2000

Honourable Steve Ashton

Minister charged with the administration of
The Gaming Control Act

Room 203, Legislative Building

450 Broadway

Winnipeg, Manitoba R3C 0V8

Dear Mr. Minister:

I have the honour to submit, pursuant to section 5 of The Gaming Control Act, a report of proceedings under The Act for the fiscal year ended March 31, 2000.

Respectfully submitted,

Darlene Dziewit
Chair

100-07639/

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► REMARKS FROM THE EXECUTIVE DIRECTOR

The 1999-2000 fiscal year marked a continued evolution of gaming in Manitoba characterized by the formalization of a process for community input, expanding programs to assist problem gamblers and the extension of new gaming opportunities to Manitoba's First Nations.

In keeping with its mandate, the Manitoba Gaming Control Commission (MGCC) worked collaboratively with key stakeholders, providing gaming policy advice and performing many of the operational duties required to support these initiatives.

This past year also noted improvements to the organizational structure of the Commission. These changes were recommended as a result of the examination of the Commission's core processes that was completed in the previous fiscal year. This business process re-engineering initiative was undertaken in order to strengthen the Commission's ability to carry out its responsibilities with the goal of providing better service to our customers, key stakeholders and the people of Manitoba. In the new year, the Commission will continue to move forward with other recommendations, including the development of integrated

information technologies, that will enhance the delivery of the Commission's operational and policy advisory roles.

In July 1999, the MGCC was given new responsibilities under *The Gaming Control Local Option (VLT) Act*. This legislation sets out a formal framework for Manitoba municipalities to conduct and implement the results of VLT plebiscites. The Commission initially became involved in the development of this legislation when, as a result of recommendations contained in the 1995 Lottery Policy Working Group (Desjardins) Report, the Provincial Government requested that the MGCC examine the question of municipal VLT plebiscites. The MGCC undertook a review that included jurisdictional research, a review of relevant legislation, public hearings, written submissions and meetings with key stakeholders. In July 1998, the Commission submitted its recommendations to the Provincial Government in the *Municipal VLT Plebiscite Review*. *The Gaming Control Local Option (VLT) Act* was the eventual culmination of the Provincial Government's acceptance of the MGCC's recommendations and commitment to formalizing the municipal VLT plebiscite process.

"This business process re-engineering initiative was undertaken in order to strengthen the Commission's ability to carry out its responsibilities with the goal of providing better service to our customers..."

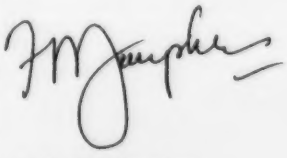
The MGCC also continued its support of initiatives related to the social impacts of gambling, such as the Problem Gambling Assistance Program. In the previous fiscal year, the Addictions Foundation of Manitoba introduced the program – the first of its kind in North America – in cooperation with the Manitoba Hotel Association, Manitoba Restaurant and Foodservices, the Manitoba Lotteries Corporation and the MGCC. This unique program recognizes that the people often in the best position to identify and assist customers experiencing difficulty with their gambling are those working in VLT sites. In August 1999, the MGCC made participation in this program mandatory for all VLT siteholders in Manitoba. Approximately 600 sites will have completed this training by August 2000. This program is now a model for similar programs in other jurisdictions.

The MGCC is a frequent participant in forums for inter-jurisdictional information sharing on gaming matters. In further support of this, the MGCC was proud to host the 1999 Canadian Gaming Regulators Association conference in late August. The conference was an overwhelming success, bringing together regulators, gaming policy analysts, members of law enforcement agencies, academics, researchers and gaming industry representatives all seeking to gather information and share perspectives on the Canadian gaming environment.

The scope of the MGCC's responsibilities with regard to First Nations gaming began to expand this past year. In December 1999, the Provincial Government announced a new initiative seeking to extend gaming opportunities for Manitoba First Nations. On January 19, 2000, the First Nations Casino Project Selection Committee comprised of Mr. Martin Freedman Q.C., nominated by the Provincial Government, and Mr. Ron Nadeau, nominated by the Assembly of Manitoba Chiefs, released the Request for Proposals (RFP) to solicit proposals from Manitoba First Nations interested in developing casino facility projects as economic development initiatives. The Selection Committee is currently preparing to undertake the evaluation of proposals submitted for the establishment of up to five First Nations casinos in the province. The Selection Committee will make its final recommendations to the Provincial Government on May 31, 2000. The MGCC has provided key support to the Selection Committee in two respects: the secondment of MGCC staff to assist the Selection Committee and providing advice on gaming regulatory matters. In the coming year the Commission will also conduct investigations and registrations related to the First Nations Casino Project in keeping with its mandate under *The Gaming Control Act*.

"The MGCC is a frequent participant in forums for inter-jurisdictional information sharing on gaming matters."

The Commission expects that the coming year will continue to offer opportunities to enhance its support of its clients and to work collaboratively with key stakeholders. The MGCC will also continue to pursue initiatives that further its mandate of ensuring that gaming activities in Manitoba are conducted honestly, with integrity and in the public interest.



F.J.O. (Rick) Josephson
Executive Director

► OVERVIEW

The Manitoba Gaming Control Commission (MGCC) is an independent commission responsible for controlling and regulating gaming in Manitoba with the aims of ensuring that gaming activities are conducted honestly, with integrity and in the public interest.

The MGCC derives its powers and responsibilities from *The Gaming Control Act* and accompanying regulations and reports directly to the Minister charged with the administration of *The Gaming Control Act*. As well, the MGCC has specific responsibilities outlined in *The Gaming Control Local Option (VLT) Act*, which was enacted in July 1999.

The Commission is led by a minimum five-member and maximum seven-member board, including a Chairperson. The Commissioners bring diverse experience and expertise that is reflective of each member's personal and professional roles in the Manitoba community. In the course of their duties, the Commissioners are responsible for both regulatory and policy advisory matters. The Commissioners provide advice and recommendations to the Minister on a variety of issues related to gaming in the province. As well, the Commissioners are responsible for hearing and ruling on regulatory breaches; matters relating to supplier and employee registration by the Commission; and disputes brought forward by Manitoba Lotteries Corporation (MLC) patrons or suppliers in keeping with the MGCC's dispute resolution function.

The responsibilities and roles of the MGCC Board of Commissioners are supported and extended by the operational activities of the MGCC staff and management. MGCC management and staff are led by an Executive Director, who reports directly to the Board. In meeting its mandate to regulate and control gaming in Manitoba, the MGCC licenses and monitors charitable gaming events; registers MLC employees, suppliers, electronic gaming devices and VLT Siteholder Agreements; authorizes the introduction of new games and ensures the technical integrity of lottery schemes; conducts gaming inspections and investigations and oversees First Nations gaming activities. The MGCC also conducts research and provides policy advice on gaming matters.

► OPERATIONAL ACTIVITIES

The activities of the MGCC's operating departments are carried out in support of the Commission's clients, stakeholders and partners. This includes Manitoba charities, the general public, gaming industry businesses and suppliers, First Nations, the MLC, its employees and the Addictions Foundation of Manitoba (AFM).

While each of the MGCC's operating departments is responsible for specific activities related to its functions, each of the Commission's operating departments works within an inter-related framework in support of the Commission's mission. The following narrative describes the MGCC's operational activities for 1999-2000.

The ***Licensing and Administration Department*** approves and regulates eligible charitable and religious non-profit organizations to hold licensed gaming events in Manitoba. Gaming licences are granted for bingo, breakopen ticket, raffle, Wheel of Fortune, Calcutta Auction, Monte Carlo and sports draft activities. This department licenses and oversees the majority of charitable gaming activity in the province, with the exception of municipal charitable gaming

licences for raffles with prizes under $3,000, and First Nations Gaming Commission licensed events.

During 1999-2000, a total of 1,188 licences were issued to eligible organizations to conduct specified gaming activities, including bingo, breakopen ticket and raffle events. There were 31 fewer licences issued compared to the previous year, representing a decrease of 2.5%. Licensed organizations generated sales of $105.7 million, and realized net revenues of $18.8 million after prizes and expenses. These financial results reveal a $0.8 million increase in gross charitable gaming revenues. Total net income accruing to charitable licensees, derived from these revenues, increased by $2.5 million or 15% over the previous fiscal year.

A review of the chart below reveals information about the performance of specific charitable gaming activities in 1999-2000 as compared with activities carried out in the previous year.

Charitable gaming licensees submit financial reports detailing gross revenue, prizes, expenses and disbursements. These reports are reviewed by the ***Audit Department*** The auditors' review provides reasonable assurance to the MGCC, the Provincial Government and the people of Manitoba that all charitable gaming revenue and expenses are recorded and reported in accordance with the Terms and Conditions of the charitable gaming licences. The *Audit Department* also provides assistance, education and training to MGCC licensees and First Nations Gaming Commissions on preparing, completing and submitting financial reports. In addition, this department also provides advice and assistance to MGCC investigators and inspectors in support of their work with charitable organizations.

"...each of the Commission's operating departments works within an inter-related framework in support of the Commission's mission."

Beyond the Commission's responsibilities regarding charitable gaming, the MGCC's ***Registration Department*** registers all MLC employees, VLT Siteholder Agreements and all gaming and non-gaming suppliers providing goods or services in excess of established dollar amounts. As part of the *Registration Department*, registration investigators oversee and conduct background investiga-

Charitable Gaming ($millions) Fiscal Year 1999/2000

Event Type	Licensed Events		Gross Revenue		Prizes Paid		Total Expenses		Net Profit	
	99/00	98/99	99/00	98/99	99/00	98/99	99/00	98/99	99/00	98/99
Bingo	535	559	$ 81.0	$ 80.1	$ 60.3	$ 61.3	$ 9.5	$ 9.4	$ 11.2	$ 9.4
Breakopen	461	486	$ 12.6	$ 13.8	$ 8.8	$ 9.7	$ 1.3	$ 1.8	$ 2.5	$ 2.3
Raffle	157	139	$ 11.9	$ 10.8	$ 4.7	$ 4.4	$ 2.2	$ 1.9	$ 5.0	$ 4.5
Other	35	35	$ 0.2	$ 0.2	$ 0.1	$ 0.1	$ 0.0	$ 0.0	$ 0.1	$ 0.1
Totals:	**1188**	**1219**	**$105.7**	**$104.9**	**$ 73.9**	**$ 75.5**	**$ 13.0**	**$ 13.1**	**$ 18.8**	**$ 16.3**

tions and interviews. The registration activities are often supported by inspectors and investigators from ***Field Operations***, to further ensure that all registration requirements are met.

"...the MGCC is responsible for ensuring the fairness and integrity of lottery schemes conducted in the province."

Through proactive inspections and compliance investigations, the MGCC's ***Enforcement Unit*** ensures that gaming is conducted honestly, with integrity, in accordance with all applicable legislation and in adherence to all regulatory requirements. The duties of the MGCC *Enforcement Unit* frequently overlap with other MGCC function areas. For instance, MGCC inspectors provide assistance to charitable organizations with licence applications, provide advice on setting up and running gaming activities and offer guidance on preparing and submitting financial reports and adhering to licensing Terms and Conditions. Inspectors also ensure compliance with the terms and conditions of VLT Siteholder Agreement registration. MGCC investigators conduct inquiries into patron disputes at MLC casinos, VLT sites and lottery ticket terminal locations. The MGCC also works closely with law enforcement agencies, referring any matters of suspected *Criminal Code of Canada* violations to the appropriate policing authority.

As well as making certain that those organizations and individuals involved in gaming in Manitoba meet standards established in *The Gaming Control Act*, the MGCC is responsible for ensuring the fairness and integrity of lottery schemes conducted in the province. The MLC or any charitable licensee must apply for technical integrity approval if they wish to introduce any lottery scheme not previously approved by the MGCC or if they intend to significantly modify an existing lottery scheme. *The Gaming Control Act* defines "technical integrity" as meaning that a lottery scheme performs in a manner that is fair, honest, secure, safe and auditable. These criteria refer to the game's design and concept; the steps taken to manufacture, supply, deliver, install and maintain the components of the game; and that the prize structure conforms with minimum requirements for prize payouts.

The MLC, as the sole agent of the Provincial Government authorized to conduct and manage electronic gaming in the province, must also register each electronic gaming device with the MGCC. One of the key roles of the ***Technical Integrity Department*** is to ensure the integrity and security of electronic gaming devices. The criteria for technical integrity approval of electronic gaming devices may include testing of the device by an independent laboratory; polling jurisdictions where the device is currently operating; a detailed inspection of the device components; and quality assurance and/or counterfeit bill testing, among other criteria. The MGCC's third party, independent oversight of electronic gaming devices ensures the technical integrity of gaming devices in Manitoba.

At present, First Nations gaming in Manitoba is comprised of charitable gaming activities and the operation

of VLTs. First Nations may establish a First Nations Gaming Commission or seek MGCC licensing to regulate charitable gaming activities taking place on-reserve. MGCC licences are issued to First Nations in accordance with the guidelines and procedures that apply to all charitable licensees. First Nations wishing to establish gaming commissions negotiate the terms of such an agreement with MGCC ***Native Gaming Department*** staff acting on behalf of the Provincial Government. A First Nations Gaming Agreement specifies that the terms and conditions of lottery licences issued by the First Nation's Gaming Commissions must be the same as those licensed by the MGCC. The *Native Gaming Department* also negotiates VLT Siteholder Agreements with First Nations on behalf of the MLC. The *Native Gaming Department* works cooperatively with Manitoba First Nations to facilitate the licensing of charitable gaming activities; to assist First Nations in meeting the terms of their VLT Siteholder Agreements; and to support adherence to all gaming-related provincial and federal legislation.

The First Nations Casino Project Selection Committee, established by the Provincial Government in December 1999, is currently preparing to review proposal submissions for the establishment of up to five First Nations casinos in the province. The *Native Gaming Department*, as well as other MGCC operating areas, has been requested to assist with this review.

Another function area that operates reciprocally, is the ***Research and Communications Department*** whose primary role is to conduct research and to provide information and advice on a variety of issues to the MGCC's Board of Commissioners, the Minister charged with the administration of *The Gaming Control Act* and other operational areas within the MGCC. In addition, the *Research and Communications Department* regularly responds to requests for information on gaming related issues from other jurisdictions, the media and the public. In support of its policy advisory activities and in furtherance of its public interest mandate the MGCC may undertake joint or independent research projects, as it deems necessary. This department frequently collaborates with the AFM and other local and inter-jurisdictional stakeholders on projects and issues of mutual interest and concern.

"Each MGCC department maintains a particular focus on a specific element of gaming in Manitoba..."

The operational activities of the MGCC encompass a variety of roles and duties. Each MGCC department maintains a particular focus on a specific element of gaming in Manitoba: charitable gaming, financial reporting, registration, compliance with legislation and regulations, First Nations gaming, research and policy analysis. However, a wider perspective of the MGCC shows a series of interconnected responsibilities, all supporting the Commission's mission of ensuring that gaming activity in the province is conducted with integrity, honesty and in the public interest.

MANITOBA GAMING CONTROL COMMISSION

FINANCIAL STATEMENTS

For the period ended March 31, 2000

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► AUDITORS' REPORT

To the Members of MANITOBA GAMING CONTROL COMMISSION

We have audited the balance sheet of **MANITOBA GAMING CONTROL COMMISSION** as at March 31, 2000 and the statements of operations and surplus and cash flows for the year then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the organization as at March 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.

BDO Dunwoody LLP

BDO Dunwoody LLP

Chartered Accountants

Winnipeg, Manitoba

May 25, 2000

▶ BALANCE SHEET

March 31

	2000	1999
Assets		
Current Assets		
Cash	$ 210,911	$ 195,390
Short-term investments	2,167,588	1,615,617
Accounts receivable	170,900	176,875
	2,549,399	1,987,882
Capital assets (Note 1)	464,160	428,173
	$ 3,013,559	$ 2,416,055
Liabilities and Surplus		
Current Liabilities		
Accounts payable and accrued liabilities	$ 447,258	$ 505,499
Deferred revenue (Note 2)	1,176,585	1,081,425
	1,623,843	1,586,924
Deferred lease inducements (Note 4)	79,625	90,125
	1,703,468	1,677,049
Surplus	1,310,091	739,006
	$ 3,013,559	$ 2,416,055

On behalf of the Board:

John K. Collins
Director

L. Cenerini
Director

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

▶ STATEMENT OF OPERATIONS AND SURPLUS

For the year ended March 31

	2000	1999
Revenue		
Registration fees	$ 2,119,313	$ 2,000,694
License fees	1,396,958	1,367,682
	3,516,271	3,368,376
Expenses		
Salaries and benefits	2,160,195	1,931,468
Other	141,714	145,504
Transportation	134,123	115,064
Rent	127,356	136,215
Amortization	113,533	60,459
Legal and professional fees	105,742	115,406
Communications	82,424	87,975
Supplies and services	77,497	71,186
Accommodations	42,625	33,541
Commission Board	37,678	80,222
Interest expense	–	117
	3,022,887	2,777,157
Income before other items	493,384	591,219
Other items		
Other income	14,641	230
Interest income	63,060	36,885
	77,701	37,115
Excess of revenue for the year	571,085	628,334
Surplus, beginning of year	739,006	110,672
Surplus, end of year	$ 1,310,091	$ 739,006

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended March 31

	2000	1999
Cash Flows from Operating Activities		
Excess of revenue for the year	$ 571,085	$ 628,334
Items not involving cash		
Amortization of capital assets	116,242	62,009
	687,327	690,343
Changes in non-cash working capital balances		
Accounts receivable	5,975	(133,991)
Accounts payable and accrued liabilities	(58,241)	260,949
Deferred revenue	95,160	4,081
	730,221	821,382
Cash Flows from Investing Activities		
Purchase of capital assets	(152,229)	(114,403)
Cash Flows from Financing Activities		
Deferred lease inducements	(10,500)	43,250
Increase in cash and cash equivalents during the year	567,492	750,229
Cash and cash equivalents, beginning of year	1,811,007	1,060,778
Cash and cash equivalents, end of year	$ 2,378,499	$ 1,811,007
Represented by		
Cash	$ 210,911	$ 195,390
Short-term investments	2,167,588	1,615,617
	$ 2,378,499	$ 1,811,007

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

March 31, 2000

Nature of Business

The Manitoba Gaming Control Commission was established by *The Gaming Control Act*. The organization's objectives are to regulate and control gaming activity in the province with the aims of ensuring that gaming activity is conducted honestly, with integrity and in the public interest. The organization began its operations on October 20, 1997.

Financial Instruments

The organization's financial instruments consist of cash, short-term investments, accounts receivable, and accounts payable. Unless otherwise noted, it is management's opinion that the organization is not exposed to significant interest, currency or credit risks arising from these financial instruments.

Capital Assets

Capital assets are stated at cost less accumulated amortization. Amortization based on the estimated useful life of the asset is calculated as follows:

Equipment	20% declining balance basis
Furniture and fixtures	10% declining balance basis
Computer equipment	30% declining balance basis

Revenue Recognition

Revenue and expenses are recorded on an accrual basis except for license fee revenue, which is recognized on a cash receipt basis.

NOTES TO FINANCIAL STATEMENTS

March 31, 2000

1. Capital Assets

	Cost	Accumulated Amortization	2000 Net Book Value	1999 Net Book Value
Equipment	$54,608	$16,927	$37,681	$30,084
Furniture and fixtures	294,305	62,021	232,284	226,602
Computer equipment	308,529	114,334	194,195	171,487
	$657,442	$193,282	$464,160	$428,173

2. Deferred Revenue

Deferred revenue consists of registration fees received to be recognized as revenue in the year in which the related expenses are incurred.

3. Commitments

The organization has an operating lease for its premises at $12,094 per month, under a lease expiring in 2007.

The minimum annual lease payments for the next five years are as follows:

2001	$145,125
2002	145,125
2003	145,125
2004	145,125
2005	145,125

4. Deferred Lease Inducements

The organization has received lease inducements in the form of a rent-free period of approximately ten months. The benefits arising from these lease inducements are amortized over the term of the lease on a straight-line basis as reductions of rental expense. Rental expense has been reduced by $10,500 for the period ending March 31, 2000 ($10,500 in 1999) and an annual reduction in rental expense of approximately $10,500 is expected for the years 2001 through 2007.

NOTES TO FINANCIAL STATEMENTS

(Continued)

5. Economic Dependence

A substantial portion of the organization's total revenue is derived from Manitoba Lotteries Corporation in the form of registration fees.

6. Pension Plans

Current service contributions are recognized as operating expenses. The organization participates on a fully funded basis and its contributions of $57,229 ($48,472 in 1999) represent the total contributions for the year.

7. Uncertainty Due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the organization, including those related to customers, suppliers, or other third parties, will be fully resolved.

8. Subsequent Event

The Province of Manitoba requested the Manitoba Gaming Control Commission to transfer $315,000 to the Consolidated Fund subsequent to the year end.